

Oil Refineries Ltd.

Israel Securities Authority
Via electronic communications

Tel Aviv Stock Exchange Ltd.
Via electronic communications

Gentlemen,

Re: **Oil Refineries Ltd. ("the Company") – Immediate Report on Significant Private Placement**

A. Preface

1. Immediate notice is hereby given in accordance with Regulation 20 of the Israel Securities Regulations (Private Placement of Securities in a Registered Company), 2000 ("**Private Placement Regulation**"), of a resolution by the Company's Board of Directors dated September 5, 2007 (which was approved by the Company's Audit Committee on 29.8.2007), regarding approval of an allocation of 9,000,000 Options to a trustee for the Chairman of the Board of Directors and Chief Executive Officer of the Company, within the scope of approval of a general Option Plan to officers and senior employees of the Company.

Likewise, on the same date, the Company's board of directors approved an Options Plan, under the terms of which it will be possible to allocate an additional 21,000,000 options to officers and employees who are not officers in the Company, the identity of whom and terms at which the options will be allocated, if allocated, will be determined by the Compensation Committee of the Board of Directors, the Board of Directors and the Audit Committee of the Board of Directors (if required for officers), subject to approval of the Options Plan by the tax authorities.

B. Identity of Offerees

2. The Offerees are: Mr. Yossi Rosen, Chairman of the Board of the Company and Mr. Yashar Ben-Mordechai, Chief Executive Officer of the Company ("**the Offerees**" and each separately "**the Offeree**").

C. Terms of the Securities Offered for Issuance

3. The offered securities are non-marketable options, pursuant to each of which the Offeree will be entitled to purchase from the Company one ordinary share, NIS 1 par value of the Company, under the terms of the Company's Options Plan that was approved by the Company's Board of Directors and will be submitted for the approval of the tax authorities, and they will be offered on the capital track (with a trustee), under Section 102 of the Income Tax Ordinance and at the significant terms provided below ("**the Options**" and "**the Plan**"). All the Options will be allocated to the Offerees immediately after receipt of all the approvals required by law for a private placement, including receipt of the approval of the Tel Aviv Stock Exchange Ltd. ("**TASE**") to list the shares resulting from exercise of the options ("**the Underlying Shares**"). The Underlying Shares will be listed for trading on the TASE and commencing from the allocation date, will be equal in their rights in all matters, to the ordinary shares, NIS 1 par value, existing in the Company's capital.

4. Terms of the Options

- 4.1. The exercise price of the Options is NIS 3.25. This is the average of the Company's share price over the 30 trading days ending on the day preceding the date on which the Company's Board of Directors approved the allocation of the Options to the Offerees (4.9.2007), whom are the subject of this Report. The date of approval by the Board of Directors, September 5, 2007, will be called the **Record Date** in this Report. The exercise price will be subject to the adjustments provided below.
- 4.2. The Options will vest during a three-year period from the Record Date, in three equal portions, at the end of every year, during the three years. The Options that will vest in each of these portions will be exercisable, commencing from the end of one year from the vesting date, for a period of one year.
- 4.3. The terms of the Options will be as follows:
- 4.3.1. Upon exercise of the Options, the Offeree will not be allocated the full amount of Underlying Shares, but rather, only the quantity of shares that reflects the amount of the financial benefit inherent in the Options. Therefore, the "exercise price" stated above will only be used to determine the amount of the financial benefit and the number of shares that will actually be allocated to the Offeree. In view of Section 304 of the Israeli Companies Law, 1999, the Company will convert some of its earnings to share capital, as noted in the Section, up to the par value amount of the shares actually allocated.
- 4.3.2. If the Offerees tenure or employment ends, the Offeree will only have the right to exercise the Options vested until the date tenure or employment ends, and they will be exercisable for a period of 180 days from the final day of the tenure. The remaining Options allocated to the Offeree will expire on the final day of the tenure.
- 4.3.3. Provisions to protect the Offeree –
- 4.3.3.1. If the Company distributes a stock dividend to its ordinary shareholders, NIS 1 par value, during the period of the Options, the rights of the Offerees will be preserved in the following manner: immediately after the record date for distribution of the stock dividend ("**the Record Date**"), the number of underlying shares that the Offeree is entitled to receive, upon their exercise will be increased, by adding the number and class of shares which the Offeree would have been entitled to receive as a stock dividend, if the (unexercised) Options had been exercised proximate to the Record Date.
- 4.3.3.2. If the Company is party to an exchange of shares agreement or arrangement (such as in a merger or reorganization) ("**exchange transaction**"), in which the Company's ordinary shareholders will be offered to exchange these shares with the securities of any other corporation, the Company will be allowed to compel the Offeree, for every Option held by him or for him and not yet exercised, to receive Options that are exercisable for shares of the other corporation, the substitute for the Options of the Company he holds, according to the exchange ratio that will be prescribed for all of the Company's ordinary shareholders, provided that the total exercise price for all the substitute Options that will be allocated will be equal to the total exercise price for all the unexercised Options held by or for the Offeree.

- 4.3.3.3. In the event of a Company rights offering to shareholders, the exercise price of each Option will, on the "ex-date", be reduced by an amount equal to the benefit component. In this context, the "benefit component" shall mean: the difference between the share price on the TASE, which, according to the rights offering prospectus, served as the basis for calculating the share price "ex-rights" stated in the prospectus, and between the share price "ex-rights" according to the prospectus.
- 4.3.3.4. In any case of the Company paying a cash dividend to the ordinary shareholders, on the "ex-date of the dividend", prescribed by the TASE, the exercise price of each Option will be reduced by the amount of the dividend paid for each share of the Company.
- 4.3.3.5. If the Company executes an ordinary share merger or split into shares bearing a different par value, the requisite adjustments will apply to the underlying shares.

It is clarified that all the securities to be allocated to the Offeree for the Options or the Underlying Shares will be also deposited with the trustee, and will be subject to those terms applicable to the Options and the Underlying Shares, with the requisite changes.

5. Number of shares covered by the options

Each of the Offerees will be allocated 4,500,000 Options, exercisable for 4,500,000 ordinary shares of the Company (subject to the adjustments noted in Section 4.3.3 above), constituting 0.224% of the Company's issued and paid-up share capital.

6. The underlying shares of the Options will be listed for trading on the TASE and, commencing from the allocation date, will be equal in their rights in all matters to the ordinary shares, NIS 1 par value, existing in the Company's share capital.

7. Trust arrangement under Section 102 of the Income Tax Ordinance

7.1. The Company will approach the Income Tax Commission with the requisite reports and/or requests, so that the allocation of the Options pursuant to the Options Plan will be subject to the provisions of Section 102 of the Income Tax Ordinance, on the capital track of an allocation through a trustee (Section 102 and the regulations promulgated and rules prescribed thereunder will be referred to hereafter as "Section 102 Provisions").

7.2. Pursuant to the Section 102 Provisions, the Options will be allocated to a trustee for the Offeree, and the Trustee will treat the Options and underlying shares in accordance with the provisions of Section 102, and in accordance with the trust provisions and exercise provisions of the Options and the sale of the underlying shares, as will be stipulated between the Company and the trustee.

7.3. Any tax liability related to the Options (including in connection with the granting, exercise, sale of the option or the underlying shares) will be imposed exclusively on the Offeree.

7.4. The trustee will hold the Options for the Offeree for their entire period of existence, and will hold the underlying shares until their sale or the payment of the tax imposed

on the Offeree, whichever is earlier. If the Offeree will request to sell the underlying shares before the applicable tax is paid, he will be allowed to do so through the trustee, subject to the terms of the arrangement to be prescribed, if prescribed, with the tax authorities, and subject to the payment of tax. The trustee will be allowed to withhold any amount from the sales proceeds to secure payment of the tax.

D. Economic Value of the Option

8. The economic value of each Option on the approval date of the Offering by the Board of Directors, according to the "Black & Scholes" method is: NIS 0.83.

8.1. In calculating the above economic value, the following assumptions were taken into account:

Every Option will be exercised on the last exercise date of the Option;

The calculation of economic value does not take into account the fact that the Options will not be listed for trading on the TASE and does not take into account the lock-up of the Options during the restriction period provided in the Plan;

Calculation of the economic value does not relate to the possible implications of employment termination;

The price of the share on the valuation date ("Spot") – the closing price of the Company's share on the TASE on the date preceding the Record date, was NIS 3.156 per share;

The exercise price of the Option ("Strike") – the average price of the Company's share in the 30 trading days that ended on the date preceding the Record Date, is NIS 3.25. CPI linkage will be added to the exercise price;

The standard deviation of the underlying asset – The annual standard deviation expected for the price of the Company's share used in the calculation is 28%, based on the share's yield from the start of trading in the share on the TASE (21.2.2007) and the yield on the shares of energy companies traded on the TASE, in the last five years, as published by the TASE;

A risk-free interest rate of 3.5%;

The cumulative economic value of all the Options that will be allocated pursuant to this Report (9,000,000 Options), in accordance with the aforesaid, is NIS 7.5 million. The economic value of the Options that will be allocated to each of the Offerees pursuant to this Report is NIS 3.75 million.

8.2. The economic value of each Option on the date the Board of Directors approved the Offering, according to the TASE's guidelines, is: NIS 0.63. When calculating the economic value according to this method, the assumptions provided in Par. 8.1 above were used, with the following changes: (a) a weekly standard deviation in annual terms of 20.1%; (b) the annual discount rate was fixed at 3%. The cumulative economic value of all the Options allocated pursuant to this Report (9,000,000 Options), in accordance with the TASE guidelines, is NIS 5.6 million. The Company believes that the parameters used in the calculation of the economic value of the Options, which is also reflected in the accounting presentation, better reflects the economic value of the Options, although neither calculation alternative takes into account a discount for non-marketability and illiquidity of the Options, which reduces the economic value compared with the value for the purpose of recording

them in the financial statements and compared with the value calculated according to the TASE guidelines.

E. Terms of Employment

9. The Options allocated to the Chairman of the Board of Directors represent part of the Chairman's employment terms, brought before the general meeting for approval. For details on the employment terms of the Company's Chairman of the Board of Directors, refer to the translated detailed Immediate Report on the Convening of the General Meeting published proximate to the publication date of this Report, and also available on the Company's website under Investor Relations, Company Reports. It should be noted that Mr. Yossi Rosen serves, as the time of this report, as Director, Chairman of the Board, as well as Chairman of several Board committees, of the Israel Corporation Ltd. ("ICL"), as well as a director of several of ICL's subsidiaries. ICL is a public company controlled by the Israel Corporation, the controlling shareholder in the Company. Mr. Rosen receives, for his tenure as director in ICL and its subsidiaries, director compensation (annual compensation, and compensation per meeting) at a maximum amount defined under the Israel Companies' Regulations (Guidelines relating to external director compensation and expenses), 2000. Mr. Rosen does not receive any additional compensation for his position as ICL's Chairman of the Board or its Committees.
10. The Options allocation to the Company's Chief Executive Officer are part of the CEO's employment terms. The Company's CEO is employed pursuant to an employment agreement from 1987 and the addenda made to it over the years. The average cost of employing the Company's CEO, in the first six months of 2007, is NIS 73 thousand, per month.

F. Company's Capital, Quantity and Percentage of Holdings of Offeree and Interested Parties in the Company

11. The Company's issued and paid-up share capital immediately before the allocation covered by this Report is comprised of 2,000,000,010 ordinary shares, NIS 1 par value each.

Presented below are the Offerees' holdings in the Company's share capital (voting and capital rights), and the holdings of interested parties and the remaining shareholders in the Company as of September 5, 2006, and after executing the allocation pursuant to this Report:

Name of shareholder	Quantity and percentage of holdings in capital and voting before granting of Options		Quantity and percentage of holdings in capital and voting, assuming exercise of the options pursuant to this Offering ⁽¹⁾	
	Number of shares	Percentage (%)	Number of shares	Percentage (%)
The Israel Corporation ⁽²⁾	901,591,743	45.08	901,591,743	44.88
Petroleum Capital Holdings Ltd.	302,250,435	15.11	302,250,435	15.04
Yossi Rosen, Offeree	--	--	4,500,000	0.224
Yashar Ben-Mordechai, Offeree	--	--	4,500,000	0.224
Remaining shareholders in Company	796,157,832	39.8	796,157,832	39.63

- (1) Assumes exercise of all the Options offered to the Offerees covered by this Report (even though there will only be an actual allocation of shares equal to the value of the benefit).
- (2) For information on the irrevocable power of attorney from Petroleum Capital Holdings Ltd. ("PCH") to the Israel Corporation, to vote at general meetings of shareholders of the Company for the 100 million shares of PCH – refer to the Company's release from May 14, 2007 and the Supplementary Company release from July 29, 2007.

G. Proceeds from Offered Securities

12. The Options are granted to the Offeree for no consideration, as part of the remuneration within the scope of the employment of the Company's Chairman of the Board and Chief Executive Officer.

H. Required Approvals

13. Approval from the Tax Authority. As of the date of this Report, the Options Plan had not yet been submitted for the Tax Authority's approval. The Company will apply to the Tax Authority for approval of the Options Plan, immediately after publication of this Report.
14. Pursuant to Section 270(3) of the Companies Law, 1999, the allocation of Options to Mr. Yossi Rosen, Chairman of the Board, is subject to the approval of a General Meeting. The Immediate Report on the convening of the Extraordinary General Meeting of the Company, within the scope of which the allocation of the Options to the Chairman of the Board will be brought for approval, was published proximate to the publication date of this Report.
15. Likewise, the allocation of the Options is subject to the TASE's approval for listing the underlying shares for trading.
16. The Options to each of the Offerees will be allocated immediately after receipt of all the approvals required for the allocation of the Options to each of the Offerees.

I. Agreements between the Offeree and the Company's Shareholders

17. To the best of the Company's knowledge, and after examining this matter with the Offerees, there are no agreements between the Offerees and the shareholders of the Company regarding the purchase or sale of the Company's shares or voting rights therein.

J. Details of the Restriction Provisions Applicable to the Allocation of Options pursuant to this Report

18. Pursuant to the Israel Securities Law, 1968 ("**the Securities Law**") and the Israel Securities Regulations (Details regarding Sections 15A to 15C of the Law), 2000, the restrictions provided below will apply to the sale during TASE trading, of the underlying shares that will be allocated with the exercise of the Options (in addition to the provisions regarding the vesting of the Options, as provided previously in this Report):
 - 18.1. Prohibition from offering the underlying shares in stock exchange trading, for six months from the allocation date of the Options.
 - 18.2. During the six subsequent quarters from the end of the said six months, the Offeree will be allowed to offer, on any trading day, a quantity of shares that will not exceed the average daily trading volume of the Company's shares on the TASE, in the eight-week period preceding the Offering date, provided that in a single quarter, he will not offer a number of shares that exceeds one percent of the Company's issued and paid-up capital.

K. Date of Securities Allocation

19. The options will be allocated immediately after receipt of all the approvals stated in Par. H. above, and after the elapsing of the periods required by the Income Tax Ordinance for recognition as a plan under Section 102 of the Income Tax Ordinance (on the capital track) and for the allocation of Options pursuant thereto.

L. Reasons of the Board of Directors

20. For the purpose of determining the terms for the allocation of the Options to each of the Offerees, the Audit Committee and the Board of Directors of the Company were presented with an economic opinion by independent consultants regarding the terms of the Options Plan, the economic value of the Options, and a comparison to the practice in like-sized companies regarding share-based compensation for the Chairman of the Board and the Chief Executive Officer.
21. The Audit Committee and Board of Directors of the Company examined and contemplated the terms of the Options allocation to the Chairman of the Board and the Chief Executive Officer of the Company considering the said parameters and approved them, as provided above, inter alia, on the basis of the following principal considerations and reasons:
 - 21.1. A comparison to the accepted practice in like-sized companies regarding share-based compensation to the Chairman of the Board and Chief Executive Officer of the Company showed that the proposed terms are consistent with the practice in similar companies, and are occasionally even lower than the practice in such companies.
 - 21.2. A worthy and reasonable employment terms for the Chairman of the Board and the Chief Executive Officer were intended to benefit the Company, including driving its profitability. The Options were granted to the Company's Chairman and CEO, within the scope of the Options Plan to senior management of the Company, in order to remunerate the Chairman of the Board and the Chief Executive Officer based on their performance and contribution in increasing the Company's market capitalization and to provide incentive for them to continue to work in the Company, for the long-term, and to give them a proprietary interest in the long-term success of the Company.
 - 21.3. Share-based compensation, which grants a benefit against driving the value of the Company's share, constitutes an important and key element in remunerating its senior employees, and giving them incentive for the success of the Company and increasing its profitability.
 - 21.4. Remuneration through an Options Plan is worthy and reasonable and is intended to service the good of the Company.
 - 21.5. The combination of fixed employment terms with share-based compensation, creates the proper remuneration mix, which is intended, inter alia, and mainly to provide worthy incentives to encourage the driving of the Company's profitability and promoting its business results.

When taking into consideration the different reasoning, the Audit Committee and the Board of Directors of the Company saw full justification in approving the allocation of the Options to the Chairman of the Board and the Chief Executive Officer of the Company, as aforesaid, which is worthy and reasonable under the circumstances.

None of the directors objected to the aforesaid approval.

M. Details on Representatives of the Company with respect to the Handling of the Immediate Report

Yoav Nahir, Attorney-at-Law

Meitar, Likornik, Geva & Leshem, Brandwein – Attorneys-at-Law

16 Abba Hillel Silver Street, Ramat-Gan

Telephone: 972-3-6103100 Fax: 972-3-6103111

Respectfully,

Oil Refineries Ltd.